Brinco
LIMITED

Annual Report 1974

Officers

Chairman:
ROBERT D. MULHOLLAND

President and Chief Executive Officer:
H. W. MACDONELL, Q.C.

Vice-President:
R. C. BERRY, C.A.

Vice-President:
P. H. GRIMLEY, B.Sc., PhD.

Vice-President:
J. P. RIXON, C.A.

General Counsel:
N. M. PETERS

Secretary:
M. CARLETON BURNES, C.A.

Treasurer:
ADRIAN M. S. WHITE, C.A.

Directors

THE HON. MAURICE BOURGET, P.C.,
Lévis, Quebec
Member of the Senate of Canada

BERNARD D. BROEKER,
Bethlehem, Pa., U.S.A.

E. JACQUES COURTOIS, Q.C.,
Montreal, Quebec
Partner,
Laing, Weldon, Courtois, Clarkson,
Parsons & Tétrault

PAUL G. DESMARAIS,
Montreal, Quebec
Chairman and Chief Executive Officer,
Power Corporation of Canada, Limited

*SIR VAL DUNCAN, O.B.E.,
London, England
Chairman and Chief Executive,
The Rio Tinto-Zinc Corporation Limited

G. PETER FLECK,
New York, U.S.A.,
Chairman,
New Court Securities Corporation

LEWIS W. FOY,
Bethlehem, Pa., U.S.A.
Chairman,
Bethlehem Steel Corporation

JEAN-PAUL GIGNAC, Eng.,
Montreal, Quebec
President and Chief Executive Officer,
Sidbec-Dosco

*SAM HARRIS,
New York, U.S.A.
Senior Partner,
Fried, Frank, Harris, Shriver & Jacobson

HIRO HIYAMA,
Tokyo, Japan
President,
Marubeni Corporation

J. H. MOWBRAY JONES, D. Eng.,
Montreal, Quebec

*H. W. MACDONELL, Q.C.,
Montreal, Quebec
President and Chief Executive Officer,
Brinco Limited

*RALPH B. McKIBBIN,
Ottawa, Ontario
Chairman of the Board,
Morgan Stanley Canada Limited

*ROBERT D. MULHOLLAND,
Montreal, Quebec
Chairman,
Brinco Limited

*WILLIAM D. MULHOLLAND,
Montreal, Quebec
President,
Bank of Montreal

GORDON F. PUSHIE,
St. John's, Newfoundland
Industrial Consultant

EDMUND L. de ROTHSCHILD, T.D.,
London, England
Chairman,
N. M. Rothschild & Sons Limited

H. L. SNYDER, B. Eng.,
St. John's, Newfoundland
Director,
Centre for Cold Ocean Resources Engineering

*SIR MARK TURNER,
London, England
Deputy Chairman,
The Rio Tinto-Zinc Corporation Limited

**Member of the Executive Committee*

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TRANSFER AGENT AND REGISTRAR
The Royal Trust Company,
St. John's, Newfoundland;
Montreal, Quebec; Toronto, Ontario

SHARES LISTED
Montreal Stock Exchange
The Toronto Stock Exchange

On peut obtenir le texte français de ce rapport auprès du service des Relations Publiques, Brinco Limited, Un, Westmount Square, Montréal.

From the president

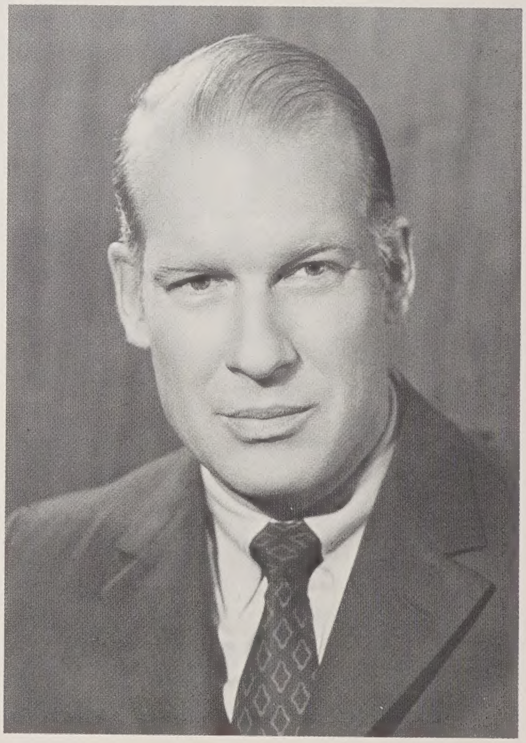
During 1974, two events had major effects on the undertakings and prospects of the Company. They were the sale of the Company's Labrador water power assets, including its 57% shareholding in Churchill Falls (Labrador) Corporation Limited ("CFLCo"), for $160 million cash and the proposed merger with Rio Algom Mines Limited which was terminated by mutual agreement in December.

These events altered dramatically not only the undertaking of the Company but also the makeup of its shareholders and staff. Under the circumstances, I feel a review of these events in a general perspective will be helpful.

In early March, 1974 when Brinco shares were trading at $5.25 per share, trading was suspended at the request of the Newfoundland Government. Shortly thereafter, the Government of Newfoundland advised that it wished to acquire the shares of Brinco held by The Rio Tinto-Zinc Corporation Limited ("RTZ") at a cash price of $6.75 per share. If RTZ was prepared to sell at that price the Government was prepared to make the same offer to all shareholders of the Company, other than those who were residents of the United States. This offer was rejected by RTZ after consulting with your Board of Directors. The Government subsequently increased its offer of $6.75 to $7.07 per share. This offer was also rejected and the Government introduced legislation to acquire forcibly the outstanding shares of the Company at the latter price.

Further negotiations resulted in an agreement by which the Company sold its shares in CFLCo and its Labrador water power assets for $160 million, representing approximately $6.53 per Brinco share, the Company retaining all its other assets. It is the view of your directors and the Company's financial advisors that the proceeds of this sale together with the value of the Company's retained assets represented a value per share in excess of $7.07. The sale to the Province of Newfoundland was completed on June 27, 1974, after obtaining shareholders' approval.

While it was the Company's view that the transaction finally concluded with Newfoundland provided the Company with assets having a value in excess of $7.07 per share, it was recognized that some shareholders might prefer to receive cash in the amount proposed by Newfoundland for the purchase of the Company's shares, given the substantial change in the Company's undertaking resulting from the sale of its major asset. Accordingly, the agreement with the Government provided that within 90 days from the closing of the Newfoundland transaction an offer would be made by the Company to its shareholders to purchase their shares at $7.07 per share. RTZ, Bethlehem Steel Corporation, Marubeni Corporation and The Fuji Bank, Ltd., who at that time owned beneficially approximately 54% of the shares of Brinco, undertook not to tender their shares under the offer, thus ensuring that cash would be available to support the Company's continuing undertakings and to purchase shares under the offer.



Harry W. Macdonell
President and Chief Executive Officer

It was also recognized at the time agreement was reached with Newfoundland that for shareholders to make an intelligent judgment as to whether or not they should accept the offer to purchase their shares, they should have access to adequate information on the Company's affairs and plans. This information should relate not only to the projects and assets retained by Brinco subsequent to the Newfoundland transaction but also to the intentions of the Company with respect to the employment of the substantial cash resources which would form the Company's major asset. Management immediately began to investigate in detail a number of investment and other opportunities designed to produce an optimum utilization of the Company's substantial cash reserves in realizing for the Company the greatest potential then available.

After careful comparison of many possibilities, the Board announced on September 16 its intention to recommend to shareholders a merger with Rio Algom on a basis described in detail in material subsequently mailed to you on September 25. This material also contained up-to-date information on the Company's affairs.

The merger arrangement imputed a value of $8.50 to each Brinco share, to be realized through the declaration of a special dividend of $1.20 per Brinco share and the conversion of Brinco shares to shares of the new company on a basis which would equate to $7.30 per Brinco share, given the then prevailing price for Rio Algom shares. Limited adjustments were to be made in the exchange ratio in the event of variations in the average market price for Rio Algom shares. By early December, the bearish trend in equity markets had so depressed the trading level of Rio Algom shares that the conversion value for Brinco shares fell below $6.00 per share and the merger no longer presented an attractive alternative for our shareholders.

When the merger arrangements were negotiated in late summer, it was recognized that failure to complete the merger could result in the Company and its shareholders suffering from failure to pursue alternatives during the interim period. It was to protect shareholders from this possibility that your directors, with the concurrence of the Company's major shareholders, approved the declaration of the special dividend of $1.20 per share, which dividend was paid in October to shareholders of record as of September 25, 1974. The Company's shareholders were thus assured that if they chose to tender their shares, they would receive not only $7.07 per share but the special dividend of $1.20 per share as well, for a total of $8.27 per share. This could be realized whether or not the merger was concluded.

By this method, a shareholder of the Company was provided with the opportunity of either realizing a total of $8.27 in cash per share, or of receiving $1.20 per share and participating in the proposed merger with Rio Algom. The merger was not concluded and the shareholder's choice now is to realize in the aggregate the cash amount of $8.27 per share ($1.20 of which has already been paid as a dividend) or continue as a shareholder of Brinco as an independent company having already received the $1.20 dividend.

When the merger proposal was terminated in early December, it was necessary to move swiftly to retain that portion of the staff required to support the continuation of the Company's exploration and development programs, and to deal with other personnel on an equitable basis in recognition of their individual contributions to the achievements of the Company. It is now the intention of the Company to continue its business, including its exploration and development programs.

The Company has not made any recommendation to shareholders as to whether or not they should accept the $7.07 share tender offer. Whether or not shareholders decide to accept the tender offer will depend upon their own personal

requirements and their assessment of the Company's future prospects. To assist a shareholder in this respect, detailed information on the Company's undertaking was contained in the tender offer material mailed on September 25, 1974. The directors' report which follows this letter, provides further information.

As of February 7, 1975, shares of the Company purchased pursuant to the tender offer, totalled 9,454,757 representing approximately 38% of the shares outstanding on September 25, 1974. Of the remaining shares, approximately 88% are beneficially owned by RTZ, Bethlehem Steel Corporation, Marubeni Corporation and The Fuji Bank, Ltd. Included in shares tendered were 359,938 shares of a total of 366,174 held by directors and officers of the Company.

The events of the past year have resulted in substantial changes in the Company's financial position. The sale of the Company's equity interest in CFLCo and the Company's water rights to Newfoundland resulted in an increase of $159 million in the Company's working capital and the employment of these funds increased interest revenues to $8 million. At the same time, other factors resulted in reductions in the Company's working capital and had a substantial effect on income. At December 31, the Company's working capital stood at $62.2 million and net income before extraordinary items for the year was $4.77 million.

The most significant factors reducing the Company's working capital were the special dividend totaling $29.5 million and the purchase by the Company up to December 31 of 9,140,071 shares for $64.6 million. (If all shares eligible for tender to the Company at $7.07 per share are presented prior to the closing date of March 31, 1975 an additional disbursement of $15.2 million will be made in 1975.) Other factors reducing working capital during 1974 were investments of $4.7 million and capitalized project expenditures of $4.7 million. Operations contributed $1.04 million to working capital.

The Company's expenses rose sharply in 1974 partially because of planned increases in activity but primarily because of the unusual events of the year. Prior to June 27, 1974, many services were shared with CFLCo. Some full-time senior officers of Brinco including the President and Executive Vice-President were employed and paid by Rio Tinto North American Services Limited which had been providing management services to both CFLCo and Brinco under contract since 1968. Following the sale to Newfoundland, Brinco assumed full responsibility for this expense.

I have devoted a large part of this letter to the events of the past year and their effects on shareholders, staff and financial results. I have done this in the hope of providing not only a greater understanding of the events themselves but also the consequences for the Company. I would now like to turn to the future.

Further adjustments in staff are anticipated; in part to strengthen the expertise of the Company in areas of growing activity and, in part to replace some, including your President, who agreed to serve the Company for a limited time to ensure an orderly transition.

A further reduction of working capital can be expected through the purchase of shares but the Company can expect to continue to have a substantial liquid position. Because of the reduction in the Company's working capital, revenues for 1975 are likely to be well below those for 1974.

It is management's intention to maintain the Company's momentum and initiative in its exploration program, in its economic assessment of the Abitibi asbestos deposit and in many of its other projects. At the same time, we believe it is desirable to maintain substantial working capital to take advantage of opportunities as they arise. During 1975, all of the Company's undertaking will be under review and we hope to effect significant reductions in expenditures.

Among the substantial staff changes, there are several to which I would like to make special reference.

Chief among these changes is the departure of Mr. William D. Mulholland, who in November 1974, submitted his resignation as President and Chief Executive Officer of the Company, effective January 8, 1975. Mr. Mulholland has now assumed the position of President and Chief Operating Officer of the Bank of Montreal. Mr. Mulholland joined the Company in January 1970 shortly after the tragic death of his predecessor, Mr. Donald McParland. His tenure of office saw the inauguration and virtual completion of the great Churchill Falls development, as well as a re-orientation of the Company's other activities.

Your Chairman, Mr. R. D. Mulholland, having reached the mandatory retirement age for directors of the Company, will not be standing for re-election at the forthcoming Annual Meeting.

Mr. Harold Snyder, formerly project manager of the Churchill Falls development, and a Vice-President of Brinco, is taking up new duties as the Director of The Centre for Cold Ocean Resources Engineering recently established at Memorial University, St. John's, Newfoundland. He also becomes a professor in Memorial's engineering faculty. However, I am pleased that Mr. Snyder's long association with the Company and with RTZ will not be severed. He has agreed to continue to offer his services as a Director of Brinco and will represent the Company's interests in the Province of Newfoundland where necessary.

Mr. R. D. Boivin has resigned from the Company to assume the position of General Manager, Spino Construction Limited. In addition to serving as Vice-President of the Company, Mr. Boivin served most ably as Project Manager of Churchill Falls from 1970 to 1974.

On behalf of all their colleagues, I would like to thank these gentlemen for their most significant contribution to the affairs of the Company. I should also like to express the gratitude of the Company to those directors who will not be standing for re-election at the forthcoming Annual Meeting. They have served the Company faithfully and well over many productive years and the Company deeply appreciates their efforts on its behalf.

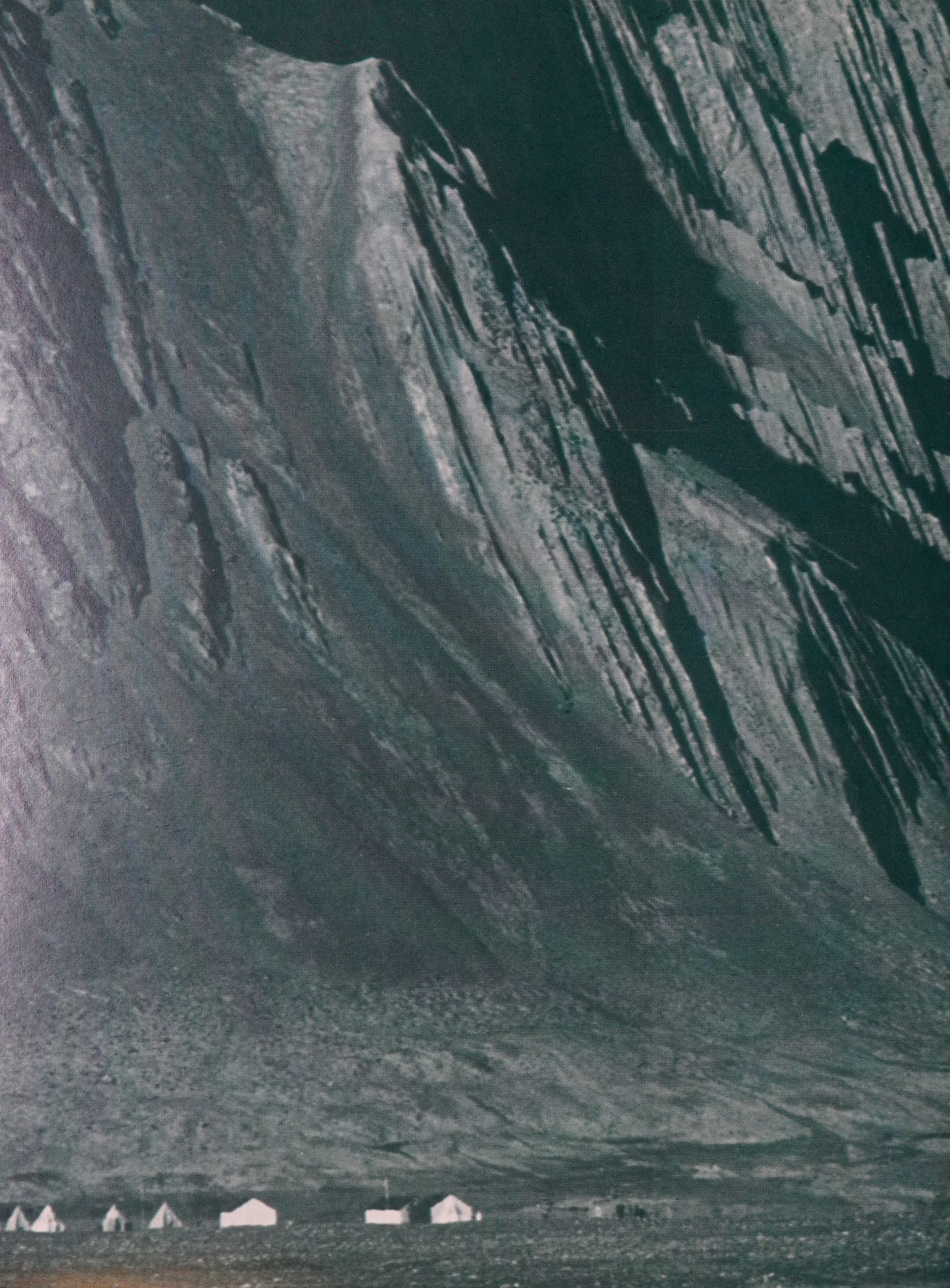
It is with deep regret that I report the passing of Charles Bowman who as Assistant Project Manager and recently Project Manager of the Churchill Falls Project made a major contribution to CFLCo and Brinco.

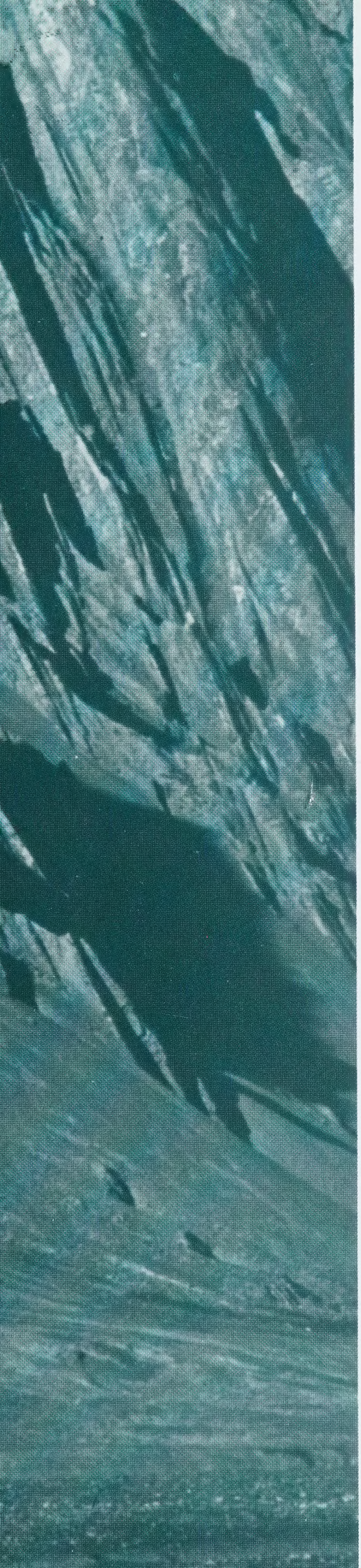
Finally, I would like to pay tribute to the Brinco staff who have continued to perform their responsibilities in a professional and dedicated manner despite the difficult events of the past year.

Harry Macdonell

Harry W. Macdonell
President and Chief Executive Officer

February 12, 1975





Brinco Limited

Report of directors to shareholders

Brinco's consolidated net income before extraordinary items was $4,771,000 or 20.8¢ per share as compared to $6,314,000 or 26.4¢ per share in 1973. Income for the year before deduction of expenses was $13,173,000 compared to $8,112,000 in 1973, and consisted of $5,166,000, representing the equity in the net income of Churchill Falls (Labrador) Corporation Limited accruing prior to the sale of the Company's shares on June 27, 1974, and $8,007,000, representing interest income most of which accrued during the period June 27 — December 31. Expenses for the year were $7,482,000 compared to $1,798,000 in 1973. Net income for 1974 including extraordinary items was $92,425,000.

Detailed information relating to Brinco's activities was mailed to shareholders on September 25, 1974 in share tender offer material which also contained particulars of a proposed merger of Brinco with Rio Algom Mines Limited. On December 10, it was announced that due to market conditions, the merger would not take place and that Brinco would continue its business, including its exploration and development programs. A summary of these activities follows.

In order to provide shareholders with up to date information on the Company's undertakings and financial condition prior to the expiry on March 31, 1975 of the Company's offer to purchase its shares, the annual meeting date has been advanced to March 20.

MINERAL EXPLORATION

Exploration expenditures by the Brinco Group, and other costs related to natural resources, after deducting recoveries from joint venture partners, amounted to $2,532,000 in 1974 compared with $1,199,000 in 1973. The increase is largely attributable to increased activity on the Kitts/Michelin project in Labrador and on the Callahan property in Washington State. Particulars of these two prospects appear later in this report. In each case data previously obtained warranted increased exploration activity in 1974.

Of the Brinco Group's land holdings, the largest single holding is in Newfoundland. Under exclusive rights granted by that province since 1953 and expiring in 1980 or 1985, the Company's wholly owned subsidiary British Newfoundland Exploration Limited ("Brinex") has the right to explore for minerals over 20,242 square miles in Labrador and over 4,524 square miles on the Island of Newfoundland.

Labrador

KITTS/MICHELIN PROJECT. In 1966, Brinex entered into an agreement with Metallgesellschaft A. G. ("Metall"), a West German company, to explore jointly 1,236 square miles of Brinex's mineral holdings west of Makkovik on the east coast of Labrador.

Exploration prior to 1966 had revealed high-grade uranium mineralization at the Kitts deposit, approximately 12 miles southwest of Makkovik. Subsequent airborne surveys followed by ground work and diamond drilling established the presence of other uranium deposits, notably the Michelin deposit 30 miles southwest of Kitts. Although of lower grade than Kitts, the Michelin deposit is of considerably higher tonnage.

In 1970, it was concluded that mining of the Kitts/Michelin deposits was not feasible at the then current world price of uranium oxide (U_3O_8). However, recent increases in long-term contract prices for delivery of U_3O_8 have caused Brinex to re-evaluate the feasibility of mining these deposits.

Preliminary estimates of grade and tonnage at the two deposits are:

	Indicated tonnage and grade of ore, including dilution	
Deposits	Tons	Pounds of U_3O_8 per ton
Kitts	208,000	14.18
Michelin	3,116,000	3.04
	3,324,000	3.7

While results of the underground and surface exploration carried out during 1974 on the Kitts deposit have not been fully assessed, preliminary calculations confirm the grade and tonnage of that deposit. Underground and surface exploration to determine with greater certainty the grade and tonnage of the Michelin deposit is planned for 1975.

In addition to establishing with more certainty the tonnage and grade of the known deposits, exploration for additional uranium ore was undertaken during 1974 with the result that drilling targets have been identified for follow-up during 1975.

Under the agreement between Brinex and Metall, exploration and development costs are shared equally. When a production decision is made Metall will earn a 40% interest, Brinex retaining a 60% interest. The agreement makes provision for dilution of interest if either party fails to provide its share of the funds required to meet exploration and development costs.

Yukon Territory

BARRIER REEF. Brinco currently owns 444,100 shares (13.9% of the outstanding shares) of Barrier Reef Resources Ltd. (N.P.L.), including 250,000 shares purchased from Barrier Reef in August 1974 for $875,000 to provide funds required to explore Barrier Reef's Goz Creek zinc property in the Bonnet Plume River area. This area attracted attention in 1974 because of the occurrence of widespread zinc mineralization. Brinco also has the option, exercisable on or before September 30, 1975, to purchase from Barrier Reef 250,000 additional shares for $1,125,000 to provide further funds to explore the Goz Creek property. Brinco also has the right to provide or arrange production financing for the Goz Creek property and to receive in consideration an additional 500,000 shares of Barrier Reef. If Brinco were to acquire all such shares, it would own approximately 30% of the outstanding shares of Barrier Reef.

The Goz Creek property is located in rugged terrain with elevations ranging between 3,700 and 6,300 feet, approximately 120 miles south of the Arctic Circle and 125 miles northeast of Mayo in the Yukon Territory. At present access to the property is only by aircraft. The nearest mining operations are at Keno Hill approximately 100 miles to the southwest.

By September 16, 1974, when drilling was terminated because of cold weather conditions, Barrier Reef had completed 20 drill holes on the property along a strike length of approximately 1,600 feet. Assay results indicate that 12 of these holes encountered zinc sulphide mineralization grading between 2.5% and 32.0% zinc over intersections ranging between 15 and 162 feet. The mineralized zone was intersected approximately 100 feet below the surface.

While in the opinion of Brinco's management these initial results are encouraging, it is too early to assess the potential of the property or how much additional exploration work will be required to determine whether or not a commercially mineable orebody exists on the property.

CYPRESS RESOURCES. In May 1974, Brinco purchased 130,000 shares of Cypress Resources Limited at a cost of $204,000, which was used to carry out an exploration program for lead and zinc on 120 claims held by Cypress in the Bonnet Plume River area. These claims are located about ten miles west of Barrier Reef's Goz Creek claims.

Under a working-option agreement with Cypress, Brinex may earn up to a 60% interest in the property by bringing it into production or by making work expenditures by 1981 aggregating a maximum of $4 million. To maintain the option in good standing, Brinex is also required to make annual payments to Cypress not exceeding $50,000. Assay results from seven holes with a total footage of 3,000 feet drilled in the northern and central parts of the property in 1974 indicate the existence of sporadic discontinuous mineralized zones of restricted size. No further work is to be done in this area in 1975. Cypress intends to explore further in 1975 a breccia zone with coincident lead and zinc geochemical anomalies which has been identified in the southern part of the property.

Washington State

CALLAHAN. Under a December 1973 joint venture agreement between Brinco's wholly-owned subsidiary, Union Holdings Inc., United States Borax and Chemical Corporation (a subsidiary of RTZ), and Callahan Mining Corporation, a drilling program is underway on Callahan's property in Stevens County, Washington, where a mine formerly was worked by American Smelting and Refining Co. The property lies about 35 miles from the Cominco smelter at Trail, British Columbia and 130 miles from the Bunker Hill smelter at Kellogg, Idaho.

Under the agreement, Union Holdings and United States Borax may each obtain up to a 25.5% interest in the property if each makes expenditures of $300,000 by June 1978.

The drilling program was commenced in 1974 to continue exploration which had been started by Callahan in 1971 to test new interpretations of geological data obtained from prior mining operations. Results to mid-September indicated the presence of a deposit containing at least 3.87 million tons of mineralization averaging approximately 4.12% zinc, 0.53% lead.

Although data from the drilling program during the latter part of 1974 has not yet been finally assessed, preliminary results have been sufficiently encouraging to warrant a considerably larger program in 1975. This program will include additional surface drilling and underground exploration and closely spaced ring-drilling. By the end of 1974, Union Holdings and U.S. Borax had each incurred expenditures of $135,000.

MINERAL PROJECTS

Abitibi Asbestos

Abitibi Asbestos Mining Company Limited ("Abitibi") is the owner of a large undeveloped asbestos deposit located in Maizerets Township, 52 miles north of Amos, Quebec. In April 1972, Brinco entered into an agreement which enabled it, subject to the fulfillment of certain conditions, to obtain up to a 51% interest in Abitibi by acquiring shares from Abitibi at $2.50 per share. As of December 31, 1974, Brinco had expended $5.2 million pursuant to the agreement and had acquired or was entitled to acquire under the agreement a total of 2,059,160 Abitibi shares. Apart from the agreement, Brinco has also purchased an additional 100,000 shares from Abitibi and 1,024,500 shares from other shareholders. Accordingly, by December 31, 1974, Brinco owned, or was entitled to acquire for expenditures already incurred, more than 55% of Abitibi's then outstanding shares, at an aggregate cost of approximately $7.6 million. If Brinco were to acquire the balance of the shares to which it may become entitled under the agreement, it would own approximately 65% of the outstanding shares.

Until January 19, 1975, Brinco had the exclusive right to conduct exploration and other activities on the asbestos deposit. During the 18 month period subsequent to January 19, 1975, Brinco will have the non-exclusive right to conduct such activities. As of this date, preproduction and economic evaluation studies, and analyses of marketing and financing arrangements are in progress.

On the basis of work done to date, Brinco's previous estimate that the deposit contained 100 million tons of asbestos bearing rock containing 3.5% recoverable asbestos fibre, may be modified. Present knowledge would indicate that a small reduction in this estimate may be warranted.

Expressions of interest have been received from potential customers throughout the world. A tightening supply situation for chrysotile asbestos which developed in 1974 should persist into the foreseeable future.

Pilot plant test work was carried out to determine a process design that will maximize the recovery of fibre. Bulk sampling and diamond drilling to outline the deposit more accurately were completed in October 1974.

Mine planning studies to establish optimum open-pit mining strategy and production capacities have been carried out by R.T.Z. Consultants Limited and a report was submitted to Brinco in late January 1975. This report is being reviewed at the present time by Brinco. Detailed construction cost estimates have been provided by the joint venture consulting organization of SNC Services Limited and Canadian Bechtel Limited and are currently being evaluated. Estimates of other construction period and start-up costs will be made by Brinco itself. While Brinco is not yet in a position to make a reliable estimate of total costs of mine development and plant construction, Brinco will continue its program with a view to determining whether or not to undertake the commercial development of the deposit. Brinco's feasibility studies are not expected to be completed any earlier than mid-1975. If a decision is made to mine the deposit, it is not expected that commercial mining operations would be scheduled to commence earlier than 36 months after the date of such a decision.

Limestone for Cement

The Brinex concession on the Port-au-Port Peninsula of western Newfoundland contains the largest known deposit of high-quality limestone suitable for the manufacture of cement on the eastern Canadian seaboard. Diamond drilling has identified in excess of 300 million tons of limestone and substantial shale deposits.

Reid Crowther Bendy International Limited, engineering specialists in the manufacture of cement, were engaged to carry out a technical evaluation study as to the feasibility of establishing a one million ton a year cement plant on the Port-au-Port property. Other engineering experts have studied harbor and terminal facilities, support services, transportation and fuel supplies. Preliminary estimates indicate that the project would require in the order of $100 million in financing.

Lehigh Portland Cement Company of Allentown, Pennsylvania with whom Brinex initially entered into an agreement to undertake this preliminary work has decided not to pursue the project. Brinco has now commenced discussions with other potential partners.

ENERGY

URANIUM ENRICHMENT PROJECT. Since 1968, Brinco has undertaken a long-term program to determine the conditions for participating in projects involving toll processing facilities for the production of enriched uranium to be used principally in light-water moderated nuclear reactors. Work on this program is continuing.

Coal

Brinco has for the past two years been investigating the possibility of acquiring interests in coal properties and coal producing companies in North America.

A reconnaissance drilling program undertaken on a 17,000 acre tract of land acquired in 1974 in the United States failed to locate steaming coal at economic depths.

Oil and Natural Gas

COSEKA. Brinco owns 727,273 common shares of Coseka Resources Limited and $5 million principal amount of its 8% secured convertible debentures. If Brinco were to convert all of the debentures into shares on the most favorable basis, it would own approximately 29% of the outstanding common shares at an average cost of $2.91.

Coseka's oil and gas reserves are located

principally in the shallow sweet gas reservoirs of southeastern Alberta and in the deep sour gas reservoirs in the foothills of the Rocky Mountains in Alberta.

Coseka recently announced encouraging results from an exploratory oil-well being drilled in the Otter area of northwestern Alberta.

Coseka's 77% subsidiary, Wharf Resources Limited, also holds varying interests in prospective gold, copper and coal properties in certain areas of British Columbia, Alberta and the State of Montana.

OTHER PROPERTIES

In addition to those referred to above, Brinco has interests in a number of projects and prospects in various parts of Canada. These projects and prospects involve exploration for lead and zinc in the Robb Lake area of northeastern British Columbia, in parts of the Yukon Territory, on Cornwallis Island in the Northwest Territories, and in the Corner Brook-Bonne Bay area on the west coast of Newfoundland; for copper on Vancouver Island and in the Babine Lake area of central British Columbia; for deeply buried copper in northern Quebec, and for uranium in Labrador, the Maritime Provinces of Canada and elsewhere.

Brinco also has purchased 300,000 shares of Nordore Mining Co. Ltd. for $150,000. Nordore has been exploring for copper and gold in Quebec and is carrying out as a general partner in a limited partnership an underground exploration program for silver and gold in the Skeena Mining Division of British Columbia.

CORPORATE ORGANIZATION

The resignation of Mr. Dominique De Grièges, C.B.E. was received on October 29, 1974 and accepted with regret.

The Chairman, Robert D. Mulholland, having reached the mandatory retirement age for directors, will not be standing for re-election at the forthcoming annual meeting.

In view of the re-organization of the Company's activities, it is felt that a smaller Board will adequately serve the Company's needs. Thus, the following directors will not be presenting themselves for re-election at the forthcoming annual meeting:

The Hon. Maurice Bourget, P.C., Bernard D. Broeker, G. Peter Fleck, J. H. Mowbray Jones, Ralph B. McKibbin, Robert D. Mulholland, William D. Mulholland, Gordon F. Pushie, Sir Mark Turner.

These gentlemen have served your Company with dedication and distinction and we express to them on your behalf our most grateful thanks.

At a meeting of the Board of Directors on January 8, 1975, Mr. Harold L. Snyder was elected a director of the Company.

On January 8, 1975, Mr. Harry W. Macdonell became President and Chief Executive Officer of the Company, succeeding Mr. William D. Mulholland who had earlier submitted his resignation from these offices, effective that date.

Also on January 8, 1975, Mr. James P. Rixon was appointed Vice-President and Chief Financial Officer.

* * *

1974 was a year in which momentous changes occurred in the affairs of the Brinco Group Companies. On your behalf, your directors wish to express their warm appreciation to staff members who steadfastly fulfilled their responsibilities in the face of difficult circumstances.

Robert D. Mulholland, Chairman

Harry W. Macdonell, President

Montreal, Quebec, February 12, 1975

Brinco LIMITED and subsidiaries

Consolidated Balance Sheet
December 31, 1974
(with comparative figures for 1973)

Assets	**1974**	1973
Current assets:		
Cash and short-term deposits (note 7 (d))	$ 69,590,000	$ 5,555,000
Accrued interest	323,000	98,000
Accounts receivable	618,000	147,000
Supplies and prepaid expenses	102,000	27,000
Total current assets	70,633,000	5,827,000
Investments:		
Churchill Falls (Labrador) Corporation Limited (note 2)	—	60,867,000
Abitibi Asbestos Mining Company Limited, at cost (note 3)	—	3,237,000
Coseka Resources Limited, at cost (note 4)	7,106,000	3,606,000
Other, at cost (note 5)	1,442,000	215,000
Total investments	8,548,000	67,925,000
Fixed assets (note 6)	441,000	45,000
Expenditures on projects:		
Lower Churchill River (note 2)	—	3,356,000
Abitibi asbestos (note 3)	10,343,000	—
Uranium enrichment	1,229,000	980,000
Other	238,000	390,000
Total expenditures on projects	11,810,000	4,726,000
Organization and financing expenses (note 2)	—	2,435,000
	$ 91,432,000	$ 80,958,000
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 3,402,000	$ 879,000
Due on purchase of common shares (note 7)	5,029,000	—
Total current liabilities	8,431,000	879,000
Deferred income taxes	470,000	—
Minority interest in subsidiary company	2,870,000	—
Shareholders' equity (note 7)	79,661,000	80,079,000
	$ 91,432,000	$ 80,958,000

See accompanying notes.

On behalf of the Board:

Harry W. Macdonell, Director

Harold L. Snyder, Director

Brinco
LIMITED and subsidiaries

Consolidated Statement of Earnings and Retained Earnings
Year ended December 31, 1974
(with comparative figures for 1973)

	1974	1973
Income:		
Equity in net income of Churchill Falls (Labrador) Corporation Limited (note 2)	**$ 5,166,000**	$ 7,449,000
Income from short-term deposits	**7,759,000**	498,000
Income from Coseka Resources Limited	**248,000**	44,000
Sales	**—**	121,000
	13,173,000	8,112,000
Expenses:		
Administrative (note 8)	**4,434,000**	543,000
Depreciation and amortization	**81,000**	56,000
Project expenditures written off	**435,000**	—
Exploration expenditures and other costs related to natural resources — net (note 9)	**2,532,000**	1,199,000
	7,482,000	1,798,000
Earnings before income taxes, extraordinary items and minority interest	**5,691,000**	6,314,000
Deferred income taxes	**920,000**	—
Net earnings before extraordinary items and minority interest	**4,771,000**	6,314,000
Extraordinary items:		
Mine shutdown costs	**—**	(109,000)
Reduction in income taxes due to utilization of exploration costs expensed in prior years	**450,000**	—
Gain on sale of shares of Churchill Falls (Labrador) Corporation Limited and Labrador water rights and related assets (note 2)	**87,148,000**	—
Net earnings before minority interest	**92,369,000**	6,205,000
Minority interest in loss of subsidiary	**56,000**	—
Net earnings (note 11)	**92,425,000**	6,205,000
Retained earnings (deficit) at beginning of year	**5,434,000**	(771,000)
	97,859,000	5,434,000
Dividends paid ($1.20 per share)	**29,531,000**	—
Retained earnings at end of year	**$ 68,328,000**	$ 5,434,000

See accompanying notes.

Brinco
LIMITED and subsidiaries

Consolidated Statement of Changes in Financial Position
Year ended December 31, 1974
(with comparative figures for 1973)

	1974	1973
Source of funds:		
Net earnings before extraordinary items	$ 4,771,000	$ —
Add (deduct) items not affecting working capital during the year:		
Depreciation, amortization and project expenditures written off	516,000	—
Deferred income taxes	920,000	—
Equity in net income of Churchill Falls (Labrador) Corporation Limited	(5,166,000)	—
Funds provided from current operations	1,041,000	—
Net proceeds from sale of shares of Churchill Falls (Labrador) Corporation Limited and Labrador water rights and related assets (note 2)	159,000,000	—
Issue of capital stock	1,308,000	8,116,000
Total funds provided	161,349,000	8,116,000
Use of funds:		
Net earnings before extraordinary item	—	6,314,000
Add (deduct) items not affecting working capital during the year:		
Depreciation and amortization	—	56,000
Equity in net income of Churchill Falls (Labrador) Corporation Limited	—	(7,449,000)
Funds used in current operations	—	1,079,000
Investment in Abitibi Asbestos Mining Company Limited (note 3)	2,838,000	557,000
Abitibi asbestos project expenditures not converted into shares of Abitibi Asbestos Mining Company Limited at December 31	1,406,000	680,000
Expenditures on other projects	500,000	731,000
Investment in Coseka Resources Limited	3,500,000	3,606,000
Other investments	1,227,000	215,000
Fixed assets — net	473,000	—
Mine shutdown costs	—	109,000
Dividend paid	29,531,000	—
Purchase of common shares	64,620,000	—
Other — net	—	2,000
Total funds used	104,095,000	6,979,000
Increase in working capital	57,254,000	1,137,000
Working capital at beginning of year	4,948,000	3,811,000
Working capital at end of year	$ 62,202,000	$ 4,948,000

See accompanying notes.

Notes to the Consolidated Financial Statements as at December 31, 1974

1. *Accounting Policies:*

The principal accounting policies followed by the Company and its subsidiaries are summarized hereunder.

BASIS OF CONSOLIDATION:

The consolidated financial statements include the accounts of the Company's subsidiaries as follows:

	Ownership 1974	1973
British Newfoundland Exploration Limited ("Brinex")	**100%**	100%
Brinco (Quebec) Limited (inactive)	**100%**	100%
Union Holdings Incorporated	**100%**	—
Gull Island Power Company Limited (inactive)	—	100%
Fernie Coal Mines Limited (inactive)	**80%**	80%
Iskut Pulpower Limited (inactive)	**60%**	60%
Abitibi Asbestos Mining Company Limited ("Abitibi")	**50.2%**	See below

At December 31, 1973, the Company owned 21.8% of Abitibi and carried this investment at cost. At the same date, the Company owned 56.96% of the issued share capital of Churchill Falls (Labrador) Corporation Limited ("Churchill Falls"). As the principal assets and credit resources of Churchill Falls could not be transferred to the Company, consolidation of its accounts with those of the Company was not considered appropriate and the investment was accounted for by the equity method.

INVESTMENTS IN OTHER COMPANIES:

Investments in other companies are carried at cost until such time as the Company's holdings are deemed to constitute effective control, whereupon the equity method of accounting for the investment is adopted.

EXPLORATION EXPENDITURES AND DEVELOPMENT PROJECTS:

Exploration expenditures and costs related to the investigation of possible investments in natural resources are charged to income as incurred, net of recoveries from joint venture partners. Development projects are carried forward as assets so long as the projects are considered to be of value. The costs of such projects are written off in the event of abandonment or are subject to depreciation and amortization when the projects are put into operation.

DEPRECIATION AND AMORTIZATION:

Depreciation of fixed assets and leasehold improvements is provided generally on the straight line basis over the estimated service lives of the assets or terms of the leases at the following rates:

Vehicles	— 30% per annum
Furniture and office equipment	— 10% to 20% per annum
Assets used in exploration	— 10% to 20% per annum
Leasehold improvements	— to expiry in 1978

The costs of fixed assets retired or otherwise disposed of and the related accumulated depreciation are removed from the accounts and the resulting gain or loss reflected in income or project costs as appropriate.

INCOME TAXES:

Tax allocation procedures are followed, except that no recognition is given in the accounts to the possible future tax reduction which may be realized through the deduction in determining taxable income in future years of unclaimed amounts of depreciation, exploration and preproduction expenditures and losses available for carryforward. The reduction in income taxes resulting from the application of such unclaimed deductions and losses carried forward is reflected as an extraordinary item in the years in which the tax reduction is realized.

FOREIGN EXCHANGE:

Current assets and liabilities arising in currencies other than Canadian dollars are translated at exchange rates in effect at balance sheet dates: all other assets, liabilities, revenues and expenses are translated at rates in effect at dates of transactions.

2. *Investment in Churchill Falls (Labrador) Corporation Limited:*

	Shares at cost	Company's share of net income since acquisition	Total
December 31, 1973	$49,647,000	$11,220,000	$60,867,000
June 27, 1974 (prior to sale)	49,647,000	16,386,000	66,033,000
December 31, 1974	Nil	Nil	Nil

On June 27, 1974, the Company sold to the Government of Newfoundland its interest in the share capital of Churchill Falls and Gull Island Power Company Limited together with its other Labrador water power rights and information and studies related thereto for $160 million cash. The Company recorded as income its equity in the net income of Churchill Falls for the period up to the date of sale.

The sale resulted in a gain calculated as follows:

Sale proceeds		$160,000,000
Less estimated costs related to the sale		1,000,000
		159,000,000
Less: Carrying value of investment	$ 66,033,000	
Expenditures on Lower Churchill River project	3,384,000	
Organization and financing expenses incurred mainly in connection with the financing of the investment in Churchill Falls	2,435,000	71,852,000
		$ 87,148,000

In the opinion of the Company and its tax advisors, no income tax is payable by the Company on the sale of these assets.

3. *Investment in Abitibi Asbestos Mining Company Limited:*

Under the terms of an agreement entered into with Abitibi in 1972 and amended in 1973, the Company purchased 800,000 shares of Abitibi for $500,000 in cash and a commitment to spend $1,500,000 on the construction of a pilot plant and related preproduction studies on the asbestos properties of Abitibi. The agreement, as amended, provides for conversion of expenditures by the Company in excess of the $1,500,000 into additional shares of Abitibi on the basis of one share for each $2.50 of such excess, or, under certain conditions, reimbursement in cash.

By September 1974, the Company had increased its investment in Abitibi to 50.2% of the outstanding share capital and the accounts of Abitibi have been consolidated with those of the Company as of September 30, 1974. The purchase method has been used in accounting for the business combination and the acquisition equation is as follows:

Net assets acquired:		
Working capital, at book value		$ 169,000
Abitibi asbestos project, at book value	$ 6,510,000	
Excess cost of shares over equity in net assets acquired, attributed to Abitibi asbestos project	3,292,000	9,802,000
Other assets, at book value		64,000
		10,035,000
Less: Minority interest	2,924,000	
Due to Brinco for development expenditures incurred on behalf of Abitibi and not converted into shares as at September 30, 1974	867,000	3,791,000
		$ 6,244,000
Consideration:		
Cash	$ 2,968,000	
Development expenditures incurred on behalf of Abitibi and converted into shares at $2.50 per share	3,276,000	$ 6,244,000

As at December 31, 1974, the Company owned or was entitled to acquire for expenditures incurred, 3,183,660 shares of Abitibi representing 55% of the outstanding share capital, of which 1,124,500 shares or 19% were acquired otherwise than under the agreement.

The agreement referred to above provides that if a production decision is made by the Company prior to July 15, 1976, the Company will acquire sufficient additional treasury shares at $2.50 per share so that the total number of shares purchased under the agreement, (exclusive of shares acquired by the Company other than under the agreement) will represent 51% of the then outstanding shares of Abitibi. Based on the outstanding share capital of Abitibi as at December 31, 1974, this would involve the acquisition of treasury shares of Abitibi (in addition to the 3,183,660 shares referred to above) at a cost of $4,545,000. The Company may also be obligated, as required by lenders who provide senior financing, to give completion guarantees and to provide additional funds in the event of an over-run in relation to project cost estimates. In addition, if required for purposes of senior financing, the Company will undertake to advance up to $1,500,000.

4. *Investment in Coseka Resources Limited:*

	1974	1973
727,273 Common Shares	$ 2,000,000	$ 2,000,000
$1,500,000 8% Convertible Debenture Series "A" due September 1976	1,500,000	1,500,000
$3,500,000 8% Convertible Debenture Series "B" due July 1979	3,500,000	—
Acquisition costs	106,000	106,000
	$ 7,106,000	$ 3,606,000

The debentures are convertible until maturity at the Company's option into common shares of Coseka. The conversion rate for the Series "A" debenture is $2.75 per share and for the Series "B" debenture $3.00 per share but, under certain circumstances the Series "B" rate may increase to $3.50 per share after July 1977.

The Company has certain rights of first refusal in any equity financing by Coseka. If the debentures are all converted under the most favourable terms, this would result in the Company acquiring approximately 29% of the outstanding voting shares of Coseka. The quoted market value of the investment in common shares of Coseka as at December 31, 1974 was $1,127,000 ($1.55 per share) and as at December 31, 1973 was $1,635,000 ($2.25 per share).

5. *Other Investments:*

	1974		1973	
	Shares	Cost	Shares	Cost
Barrier Reef Resources Ltd. (N.P.L.) ("Barrier Reef")	444,100	$1,088,000	194,100	$215,000
Cypress Resources Limited ("Cypress")	130,000	204,000	—	—
Nordore Mining Company Limited ("Nordore")	300,000	150,000	—	—
		$1,442,000		$215,000

BARRIER REEF:

The Company's shareholding represents 14% as at December 31, 1974 (7% as at December 31, 1973), of the outstanding shares of Barrier Reef. The quoted market value of the investment as at December 31, 1974, was $666,000 ($1.50 per share) and as at December 31, 1973, was $330,000 ($1.70 per share).

Barrier Reef has granted an option to the Company, exercisable on or before September 30, 1975, to purchase an additional 250,000 treasury shares at $4.50 per share to provide further funds to explore its Goz Creek property. The Company also has the right to provide or arrange production financing for the Goz Creek property in consideration of which it would receive a further 500,000 shares of Barrier Reef. It the Company acquired all the above-mentioned shares, it would own approximately 30% of the issued capital of Barrier Reef.

CYPRESS:

The Company's shareholding represents 12% of the outstanding shares of Cypress. The quoted market value of the investment as at December 31, 1974, was $55,000 ($.425 per share).

Brinex has a working option agreement with Cypress under which Brinex may earn up to a 60% interest in a Cypress property by bringing it into production or making specified work expenditures aggregating a maximum of $4 million over an eight year period. To maintain the option in good standing, Brinex is required to make annual payments to Cypress not exceeding $50,000.

NORDORE:

The Company's shareholding represents 15% of the outstanding shares of Nordore. The quoted market value of the investment as at December 31, 1974, was $126,000 ($.42 per share).

6. *Fixed Assets:*

	1974	1973
Buildings and equipment, at cost	$ 766,000	$ 464,000
Leasehold improvements, at cost	254,000	52,000
	1,020,000	516,000
Accumulated depreciation and amortization	583,000	475,000
	437,000	41,000
Land, at cost	4,000	4,000
	$ 441,000	$ 45,000

7. *Shareholders' Equity:*

	1974	1973
Capital stock	$ 75,953,000	$ 74,645,000
Retained earnings	68,328,000	5,434,000
	144,281,000	80,079,000
Less cost of common shares purchased pursuant to tender offer to shareholders	64,620,000	—
	$ 79,661,000	$ 80,079,000

(a) Common shares without nominal or par value authorized, issued and outstanding at December 31, were:

	1974	1973
Authorized	**35,000,000**	35,000,000
Issued and fully paid	**24,609,485**	24,306,811
Less held in treasury	**9,140,071**	—
	15,469,414	24,306,811

(b) The following shares were issued for cash:

	Shares		Amount	
	1974	1973	**1974**	1973
Under the 1970 Stock Option Plan, including 190,334 shares (42,668 shares in 1973) to officers including officers who were also directors	**302,674**	74,167	**$ 1,308,000**	$ 289,000
Under options granted on October 10, 1968	—	31,000	—	147,000
Other	—	1,200,000	—	7,680,000
	302,674	1,305,167	**$ 1,308,000**	$ 8,116,000

(c) There were no shares granted under option in 1974 and at December 31, 1974, there were no options outstanding. At December 31, 1973, options were outstanding on 309,340 shares — 183,000 shares to officers including officers who were also directors — exercisable at prices varying from $3.70 to $5.85 per share for periods up to April 12, 1978. Pursuant to the provisions of the 1970 Stock Option Plan, all outstanding options became exercisable in 1974 as a result of the Company's proposal to amalgamate with Rio Algom Mines Limited.

(d) Under date of September 25, 1974, the Company made an offer to shareholders ("Tender Offer") to purchase its outstanding shares at $7.07 per share. This offer was made pursuant to the agreement between the Company and the Government of Newfoundland relating to the sale of the investment in Churchill Falls and certain other assets as referred to in note 2 above. As at December 31, 1974, the Company had purchased or was committed to purchase a total of 9,140,071 shares for a total of $64,620,000. On February 7, 1975 a further 314,686 shares were purchased for $2,225,000. The Tender Offer is open until March 31, 1975 and it is anticipated that additional purchases will be made.

8. *Administrative Expenses:*

Administrative expenses for 1974 include the following:

(a) Costs associated with the proposed amalgamation of the Company and Rio Algom Mines Limited	$ 283,000
(b) Provision for severance pay for personnel terminating employment	1,099,000
(c) Provision for bonuses for personnel continuing in the companies' employment — payable $294,000 on January 1 in each of the years 1975, 1976 and 1977.	881,000

9. *Exploration Expenditures:*

Exploration expenditures are net of recoveries from joint venture partners of $780,000; 1973 — $315,000.

10. *Commitments and Contingent Liabilities:*

(a) In 1953, the Government of Newfoundland and the Company entered into an agreement (the "Principal Agreement") whereby the Company was granted options on extensive natural resource concessions within the Province of Newfoundland. Under the terms of the Principal Agreement, as amended, the Company is obligated to pay to the Government of Newfoundland an annual rental equal to 8% of the consolidated net profits before income taxes (as defined) of the Company and its subsidiary companies resulting from the operations of the concessions and rights retained under the Principal Agreement.

(b) Under the terms of the agreements relating to the sale of the Company's shareholding in Churchill Falls and its other Labrador water rights and related assets, referred to in note 2 above, the Company provided the purchaser with certain warranties and representations relating to the financial position of Churchill Falls and its subsidiary company as at December 31, 1973. The Company knows of no matters arising from such warranties and representations likely to result in an adjustment to the gain recorded on the sale.

(c) Abitibi is contingently liable to repay a loan of $100,000 out of profits derived from mining claims in Quebec or from the proceeds of sale of the mining claims. The proceeds of the loan were used for exploration and development and have been deducted from the costs of the Abitibi asbestos project.

(d) The Company leases office accommodation at an annual rental of $260,000 under a lease expiring in April 1978.

11. *Earnings per Share:*

	1974	1973
Net earnings per share before extraordinary items	**$ .208**	$.264
Extraordinary items:		
Mine shutdown costs	—	(.005)
Reduction in income taxes	**.019**	—
Gain on sale of shares of Churchill Falls and Labrador water rights and related assets	**3.758**	—
Net earnings per share for the year	**$3.985**	$.259

The calculation of net earnings per share has been made using the weighted average number of common shares outstanding, less shares held in treasury, during the respective years. There would have been no material dilution of net earnings per share in 1973 if outstanding stock options had been exercised.

12. *Income Taxes:*

For income tax purposes, the Company and its subsidiaries claim as deductions, exploration, depreciation and development expenditures sufficient to offset income which would otherwise be taxable. As at December 31, 1974, depreciation and amounts written off since the commencement of operations exceed allowances claimed for tax purposes by $14,000,000. Also, the Company and its subsidiaries have unclaimed earned depletion allowances of $5,000,000 which are available for offset against future resource profits.

In addition, the Company and its subsidiaries have losses carried forward for income tax purposes totalling approximately $500,000.

13. *Remuneration of Directors and Senior Officers:*

The aggregate direct remuneration paid or payable by the Company and its subsidiaries to the directors and senior officers of the Company amounted to $1,096,000 (1973 — $318,000), including $35,000 (1973 — $168,000) from Churchill Falls, an unconsolidated subsidiary. Included in these amounts are provisions for the severance pay and bonuses referred to in note 8 above.

In 1973 and until June 27, 1974, four of the senior officers did not receive remuneration as officers from the Company or its subsidiaries. Their services were provided pursuant to agreements with Rio Tinto North American Services Limited ("RTNAS") and they received remuneration from that company. From June 28, 1974 to December 31, 1974 their services were provided pursuant to a letter agreement with RTNAS on a reimbursement of expenses basis and the amount so paid has been included in the amount shown for the year 1974 above.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Brinco Limited and subsidiaries as of December 31, 1974, and the consolidated statements of income and retained earnings and changes in financial position for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies at December 31, 1974, and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.,
Chartered Accountants

Montreal, Que.,
February 12, 1975.